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Written Testimony of Dr. John H. Johnson, IV and Dr. Kara Gorski
Before the Washington D.C. Taxicab Commission

June 24, 2010



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Introduction

1. We, John H. Johnson, IV and Kara Gorski, submit this testimony on behalf of the D.C. Professional Taxicab Drivers Association and the Dominion of Cab Drivers to the Washington, D.C. Taxicab Commission (“the Commission”). We have been asked by these associations to discuss some general economic facts about taxicab fares in the Washington, D.C. metro area. The Commission is tasked with determining whether the current rates for cab fares have been set in a manner that is fair, equitable, and compensates taxicab drivers for their costs incurred. One simple way to examine whether D.C.’s prevailing taxicab rates are appropriate is to compare those rates to relevant benchmarks. We have studied three such benchmarks, which suggest D.C. taxicab fares are low relative to those in other metropolitan areas, as well as other modes of transportation within Washington, D.C.
2. I, John Johnson, am a Ph.D. economist and President and Founder of Edgeworth Economics, an economic consulting firm located in Washington, D.C. I am also an Affiliated Professor at the Georgetown Public Policy Institute. I have a Ph.D. in economics from the Massachusetts Institute of Technology and a Bachelors degree in economics from the University of Rochester. As a professional economist, I’ve studied rate-setting and valuation issues in a variety of contexts for more than a decade.
3. I, Kara Gorski, am a Ph.D. economist and Vice President of Edgeworth Economics, an economic consulting firm located in Washington, D.C. I have a Ph.D. in economics from the University of Illinois, Urbana-Champaign and a Bachelors degree in Economics and Latin American Studies from the University of Kansas. As a professional economist for the past seven years, I have studied valuation issues in a number of industries and have spoken publicly on valuation-related topics to a variety of audiences.

Analysis

4. One useful metric is a comparison of fares in Washington, D.C. to those in surrounding areas, such as Virginia and Maryland. Another metric is to compare taxicab fares in Washington, D.C. to those in other

major U.S. cities, accounting for differences in costs of living. A third helpful metric is to compare Washington, D.C. taxicabs fares to the costs of other modes of transportation, such as Metrorail. These simple comparisons are easy to understand and provide the Commission with a clear picture of where D.C. taxi rates are relative to other benchmark groups. In addition to these comparisons, we also will discuss the supply of taxicabs in D.C. relative to other metropolitan areas, which we believe ultimately may provide some explanation as to why D.C.'s rates are relatively low.

Comparison to Surrounding Areas

5. We studied taxicab rates in several proximate jurisdictions, including Alexandria and Arlington in Virginia and Bethesda, Maryland. As shown in Exhibit 1, we did so by calculating the current cost of a five mile taxi ride with a five minute wait for a single passenger. In D.C., the cost of this trip is \$11.50 and is the lowest of any fare in the area. The fares in surrounding areas range from 11 to 42 percent higher than those of D.C. Prince George's County, MD has the second lowest fare, costing \$12.75 for a five mile ride with a five minute wait. Bethesda, MD is among the highest fares, costing \$16.33 for the same trip.
6. We also compared the cost of this trip with additional surcharges, including fees for a second passenger and the handling of two pieces of luggage. As shown in Exhibit 2, the addition of these surcharges increases the cost of this trip in D.C. to \$13.50, but the fare remains the lowest in the surrounding area. Fares in other jurisdictions range from 8 to 36 percent higher, even when these additional charges are considered. Baltimore, MD, which does not charge additional fees for luggage handling, has the second lowest comparative fare at \$14.60. Bethesda, MD continues to be among the highest fares at \$18.33.

Comparison to Other Major Cities

7. We also studied how the current D.C. taxi fares compare to those in other major U.S. cities. Our review of the available data demonstrates that Washington, D.C. taxi fares are considerably lower than those in

other metropolitan areas, including those with costs of living equal to or lower than the cost of living in D.C. Exhibit 3 demonstrates D.C.'s relative position. Similar to our analysis of fares in surrounding areas, we have calculated the taxicab fare for a single passenger traveling five miles with a five minute wait, using current taxicab rates in major metropolitan areas, as shown on the left hand axis. On the bottom, we have plotted the cost of living indices for these same cities. Each point on this figure represents a city and demonstrates the average taxi fare associated with the five mile trip and five minute rate time versus the cost of living in that city. All other metropolitan areas analyzed here have taxi fares greater than Washington, D.C., despite the fact that D.C. has the fifth-highest average cost of living.

8. Included in this sample (denoted in green on this exhibit) are two proximate metropolitan areas – Arlington and Baltimore. Baltimore has a lower cost of living, but our illustrative taxi ride of five miles with five minutes of wait time would cost 27 percent more there than D.C. (\$14.60 v. \$11.50). In Arlington, which is close enough to have the same cost of living, this taxi ride would cost almost 24 percent more (\$14.23 v. \$11.50).
9. We also studied how D.C.'s taxi rates compared with those of other cities when surcharges for an additional passenger and two pieces of luggage were added to our five mile trip with a five minute wait. As shown in Exhibit 4, three cities have taxicab fares lower (based on this ride) than Washington, D.C. – Detroit, Seattle, and Houston. All three of these cities have costs of living lower than Washington, D.C.

Comparison to D.C. Metrorail Fares

10. We studied taxicab and Metrorail fares in other major cities relative to those in Washington, D.C. We calculated average one-way Metrorail fares for the same cities that we had used earlier in our taxi fare analysis, excluding Detroit and Honolulu, which do not have public rail systems. Exhibit 5 shows that across these cities, Washington, D.C. has the third highest average one-way metro fare, below only San Francisco and Denver. Of the cities in the surrounding area, Baltimore's public rail fare is close to half the cost of D.C.'s, but as we discussed before, its taxicab fares are 27 percent greater.

11. We also compared the average Metrorail fares in these cities to our illustrative taxicab ride with additional surcharges, including that for a second passenger and two pieces of luggage, as shown in Exhibit 6. While two cities' taxi fares are lower than Washington, D.C. (Seattle and Houston, as noted above), they also have lower average public rail fares. The majority of cities still have higher taxicab fares (based on our illustrative ride) and lower rail fares. These data suggest a dramatic asymmetry between Metrorail and taxicab fares in D.C. relative to other major metropolitan areas.
12. D.C.'s substantial average Metrorail fare (relative to other major cities) is in part due to continued increases in fares over time. WMATA has implemented significant fare increases in 2003, 2004, 2008, and we understand will be increasing rates again this month. Based on the average Metrorail fare for a five mile trip, peak fares increased more than 9 percent in 2003, another 10 percent in 2004, 22 percent in 2008, and we understand will be increasing at least 15 percent this year.¹ D.C. Metrobus has experienced similar rate increases. In 2003, Metrobus fares increased by 9 percent, 4 percent in 2004, 8 percent in 2008, and are expected to increase at least 20 percent this year. These increases have been dramatic and continued, and have not been met by similar changes in the taxicab rate structure.

Potential Explanations of Low Fares in D.C.

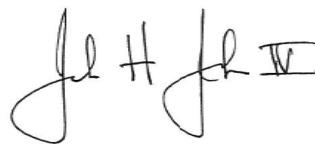
13. One factor that may potentially explain some differences in taxi rates across metropolitan areas is the supply of taxicabs. Based on available data, we have examined the number of taxicabs per 1,000 individuals in major U.S. cities, as Exhibit 7 shows. Of the cities examined, excluding Washington, D.C., the average number of taxis per 1,000 people was two. In D.C., however, that figure is eleven. In this sample of selected cities, D.C. is the only one without a cap on the number of cabs. All other cities shown had limits on the number of licenses as of 2006. Theoretically, when a limit on the number of

¹ See Ann Scott Tyson, The Washington Post, "Bus riders see inequities in proposed Metro fare increases," March 29, 2010; Ann Scott Tyson and Lisa Rein, The Washington Post, "Metro approves broad fare increase, peak-use surcharges," May 28, 2010.

taxis exists – that is, the number of taxis is artificially reduced – the market clearing taxi rates likely can be higher.

Conclusion

14. As the Commission determines whether D.C. taxicab rates are fair, it is important to consider the prevailing rates in context. Our goal is to offer testimony on this context. The benchmarks we have analyzed demonstrates that the taxicab fares in D.C. are low – low relative to rates in immediately surrounding areas; low relative to major metropolitan areas with similar costs of living; and low relative to the costs associated with riding other forms of transportation in the D.C. area. Also, the dramatic and substantial volume of taxis in D.C. relative to other major cities is another indicator that may explain these differences in taxi rates. Overall, these comparisons indicate that the Commission should at a minimum undertake a comprehensive study of the current D.C. taxi rates to determine what a fair rate would in fact be.



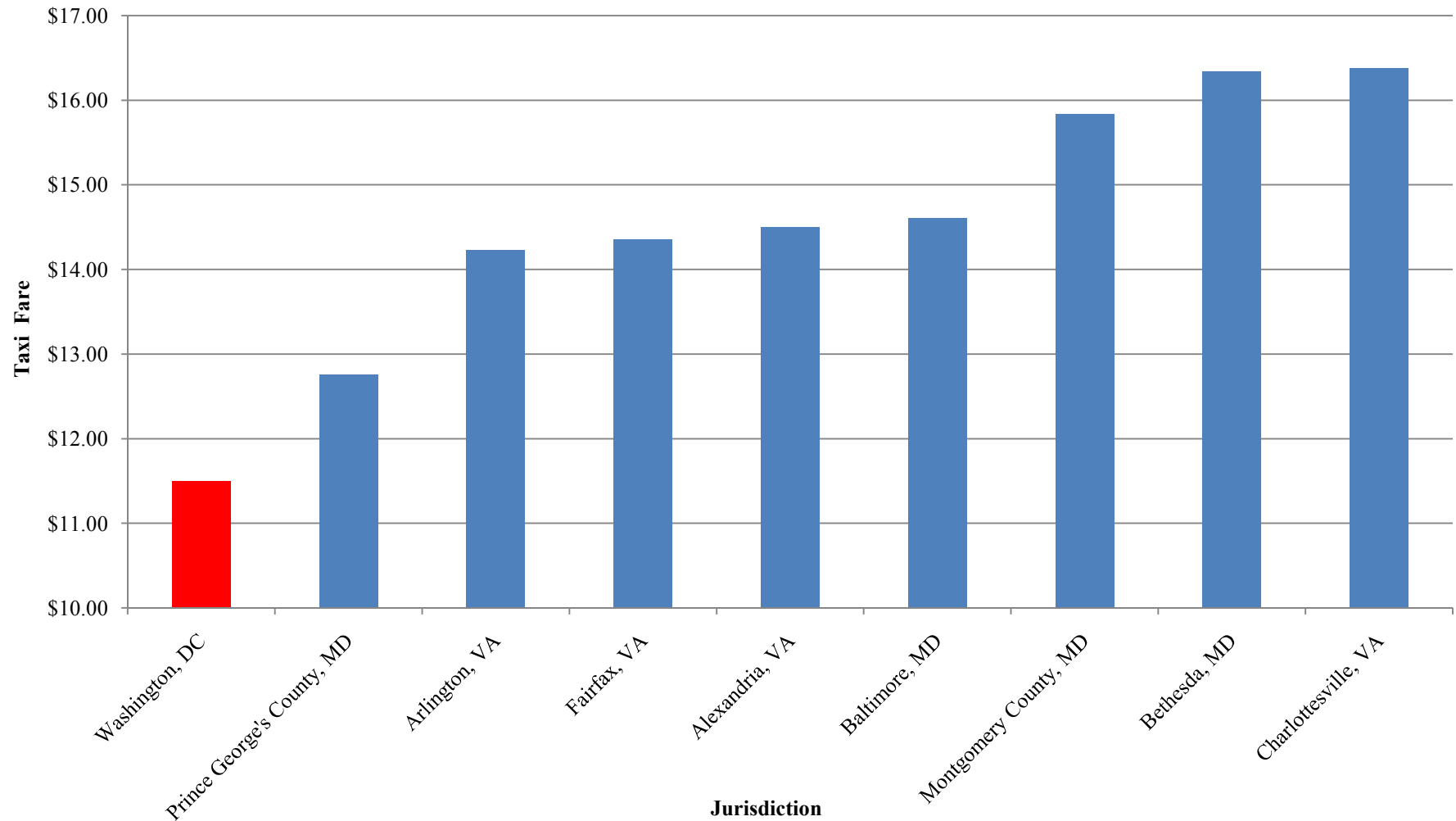
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June 24, 2010

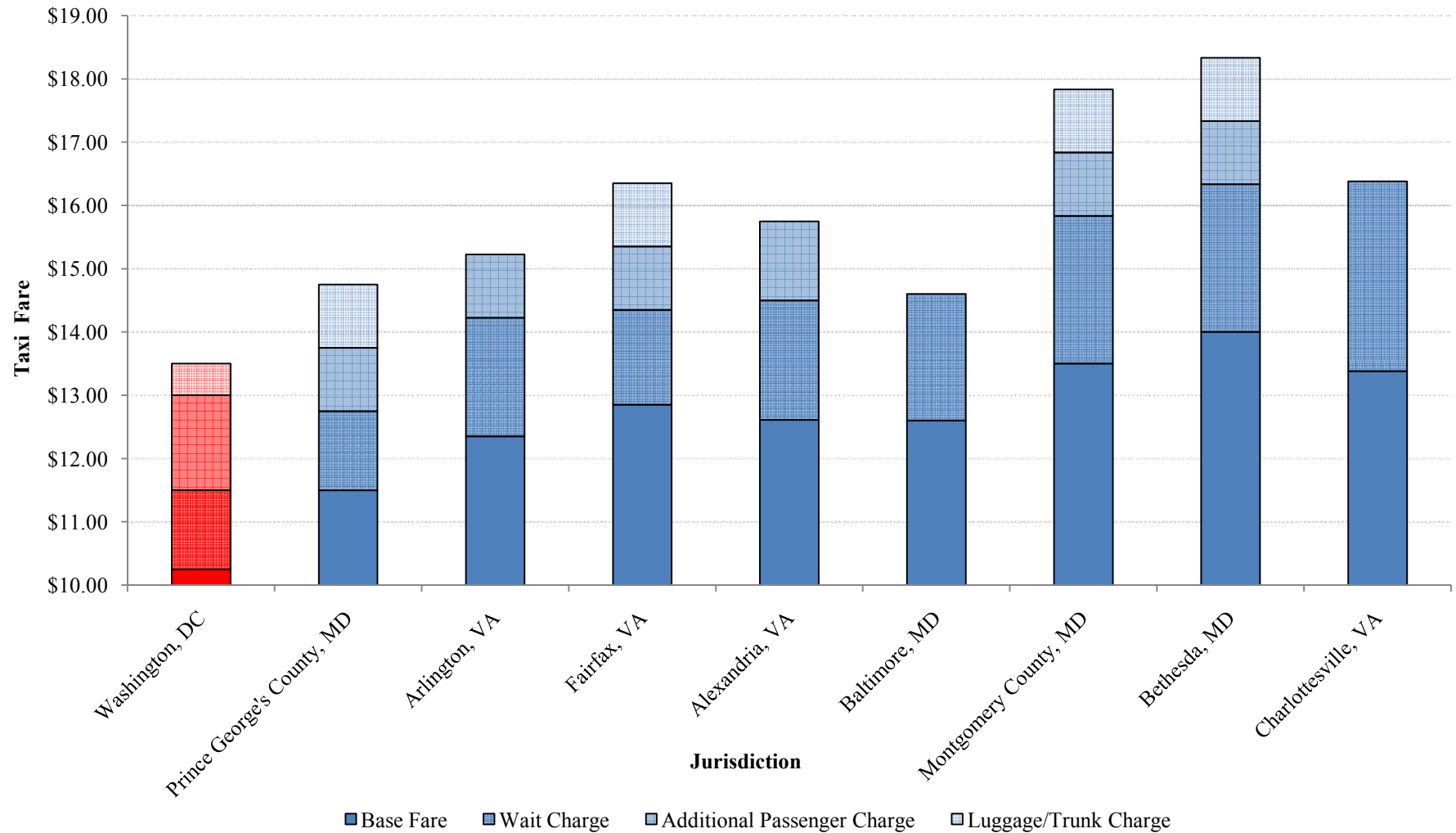
**EXHIBIT 1
TAXICAB FARE COMPARISON
AREAS SURROUNDING WASHINGTON, DC**



Notes & Sources:

Taxi Operator Websites (Accessed June 10, 2010).
Fare is calculated for a 5 mile trip with a 5 minute wait.

EXHIBIT 2
TAXICAB FARE COMPARISON WITH ADDITIONAL SURCHARGES
AREAS SURROUNDING WASHINGTON, DC

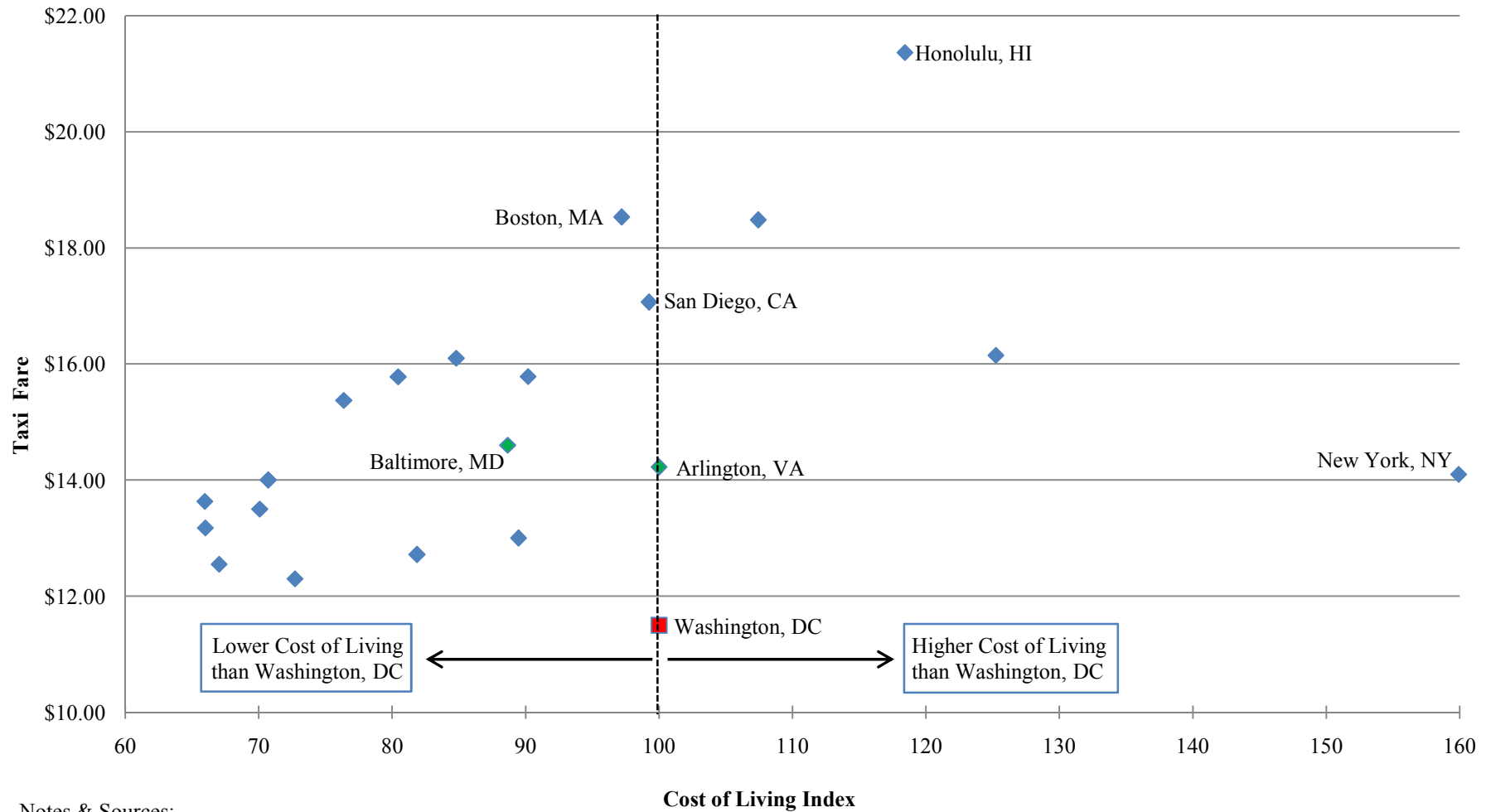


Notes & Sources:

Taxi Operator Websites (Accessed June 10, 2010).

Fare is calculated for a 5 mile trip, 5 minute wait, 2 passengers, and 2 pieces of luggage handled by the driver.

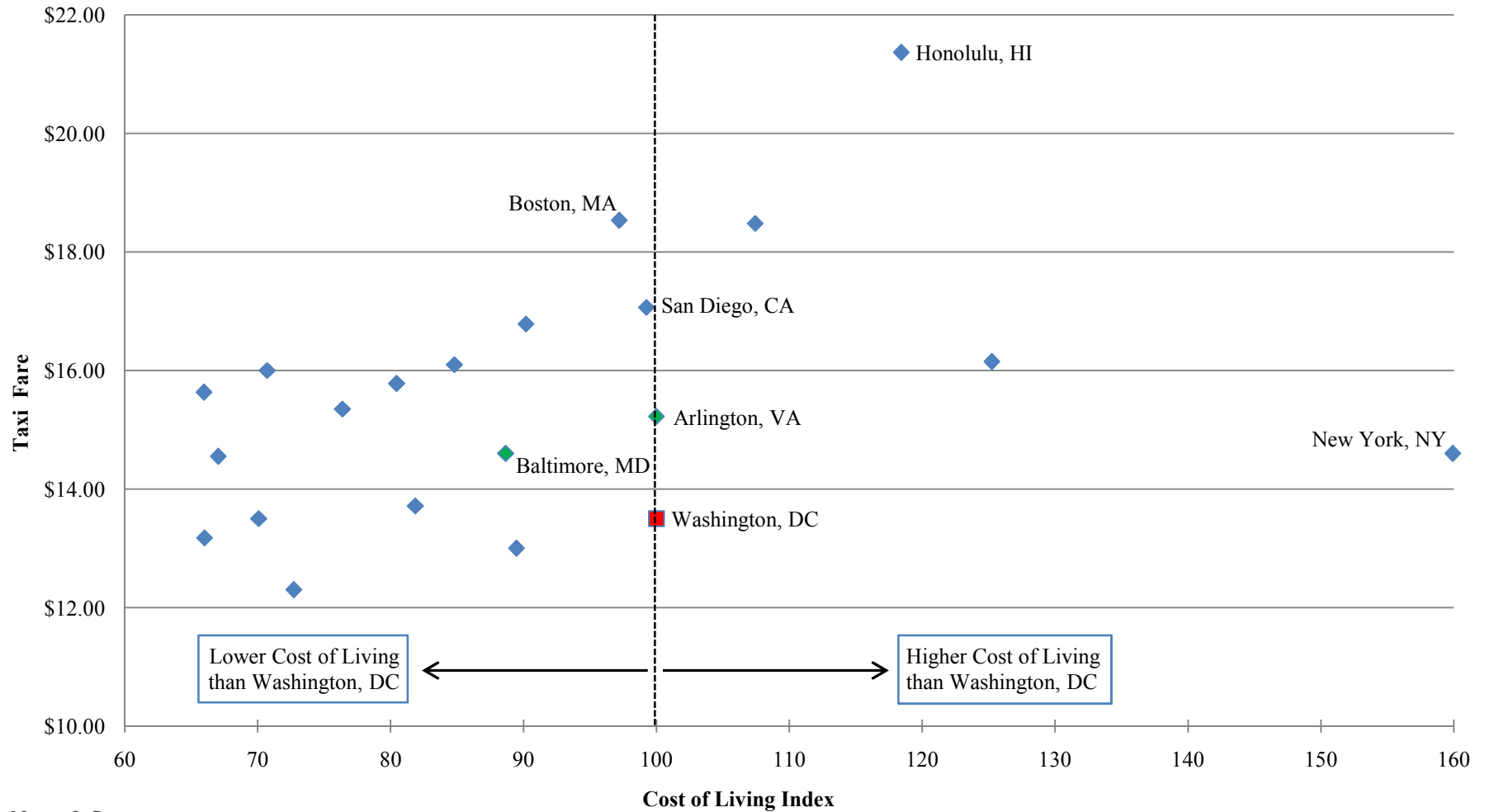
EXHIBIT 3 TAXICAB FARES AND COSTS OF LIVING SELECTED U.S. CITIES



Notes & Sources:

Taxi Operator Websites (Accessed June 10, 2010).
 ACCRA Cost of Living Index 2008.
 COLI normalized such that Washington, DC = 100.
 Fare is calculated for a 5 mile trip with a 5 minute wait.

EXHIBIT 4 **TAXICAB FARE WITH ADDITIONAL SURCHARGES AND COSTS OF LIVING** **SELECTED U.S. CITIES**



Notes & Sources:

Taxi Operator Websites (Accessed June 10, 2010).
 ACCRA Cost of Living Index 2008.
 Fare is calculated for a 5 mile trip, 5 minute wait, 2 passengers, and 2 pieces of luggage handled by the driver.
 COLI normalized such that Washington, DC = 100.

EXHIBIT 5 **TAXICAB AND PUBLIC RAIL FARE COMPARISON** **SELECTED U.S. CITIES**



Notes & Sources:

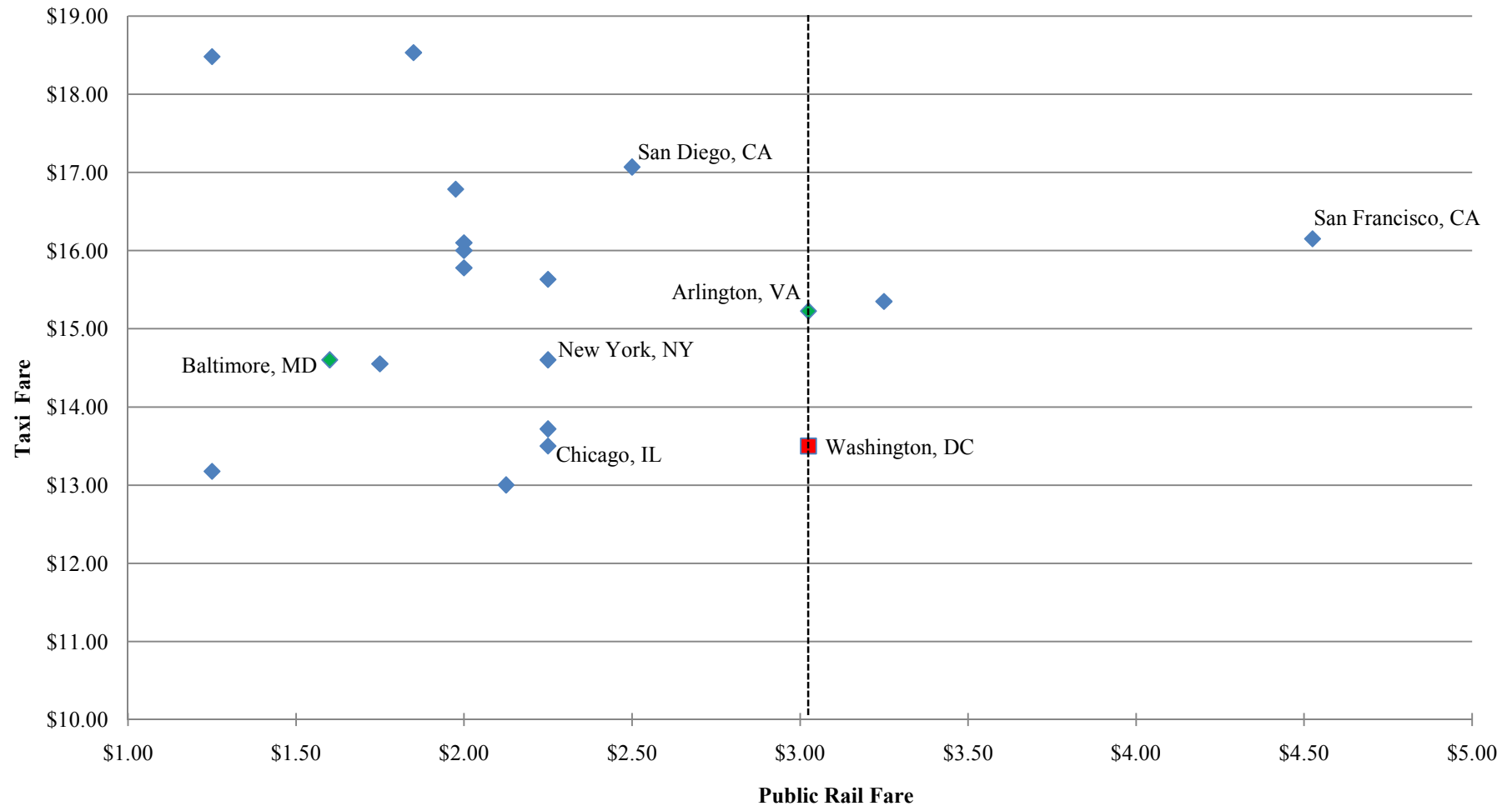
Public Rail Operator Websites (Accessed June 10, 2010).

Taxi Operator Websites (Accessed June 10, 2010).

For metro systems with multiple fare classes, average fare is calculated as average of the highest and lowest possible full fares.

Fare is calculated for a 5 mile trip with a 5 minute wait.

EXHIBIT 6 **TAXICAB FARE WITH ADDITIONAL SURCHARGES AND PUBLIC RAIL FARE COMPARISON** **SELECTED U.S. CITIES**



Notes & Sources:

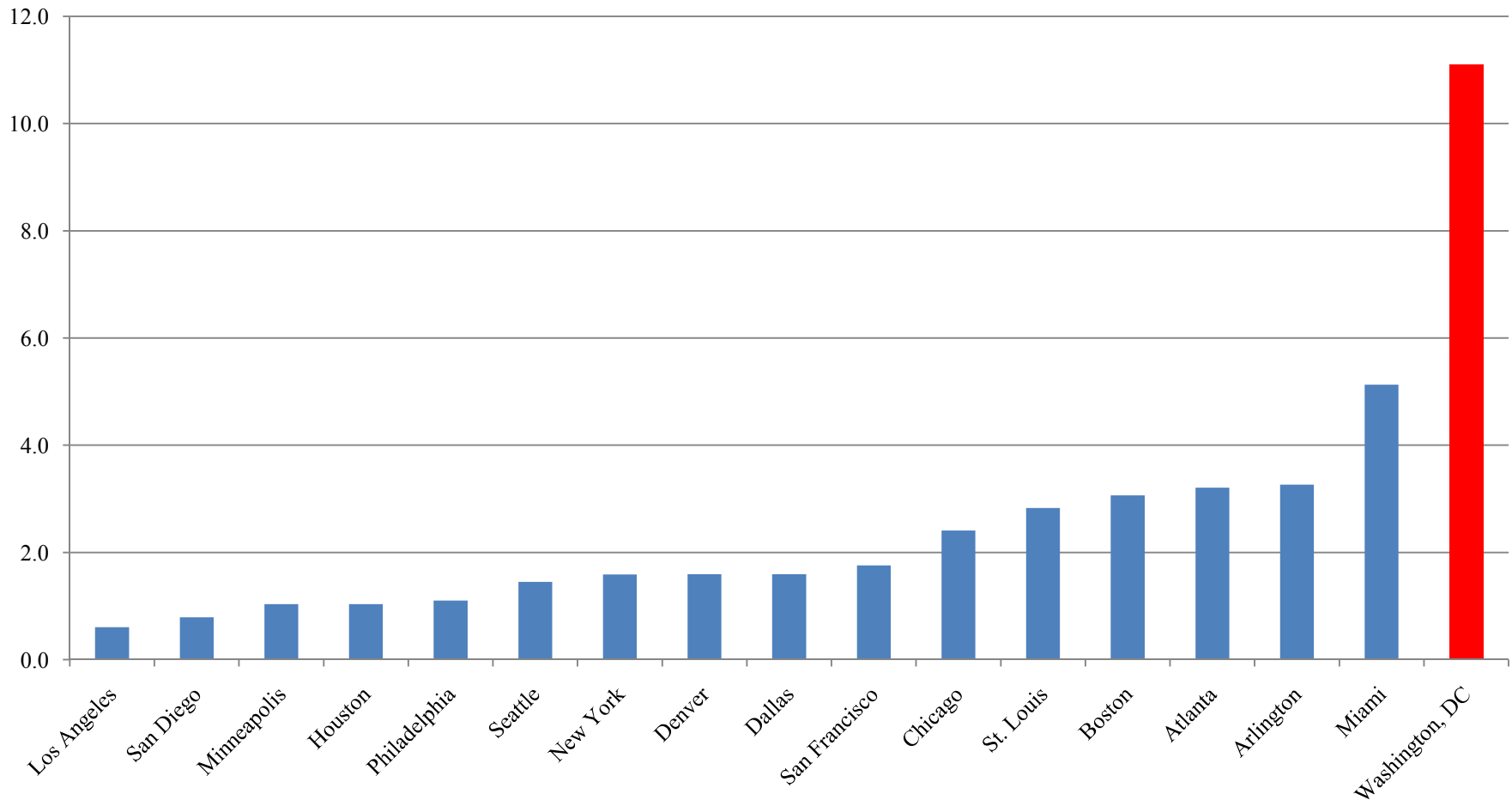
Public Rail Operator Websites (Accessed June 10, 2010).

Taxi Operator Websites (Accessed June 10, 2010).

For systems with multiple fare classes, fare is calculated as average of the highest and lowest possible full fares.

Fare is calculated for a 5 mile trip, 5 minute wait, 2 passengers, and 2 pieces of luggage handled by the driver.

EXHIBIT 7
NUMBER OF TAXIS PER 1,000 PEOPLE
SELECTED U.S. CITIES
2006



Sources:

Bruce Schaller, *Entry Controls in Taxi Regulation: Implication of US and Canadian experience for taxi regulation and deregulation*, SCHALLER CONSULTING. <http://www.schallerconsult.com/taxi/entrycontrol.pdf>. (Accessed June 10, 2010).

Annual Estimates of the Population for Incorporated Places over 100,000, (SUB-EST2008-01), U.S. CENSUS BUREAU, <http://www.census.gov/popest/cities/SUB-EST2008.html>. (Accessed June 10, 2010).